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10 March 1966

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The United Kingdom: Problems and Prospects

Submitted by

W. A. Raborn

DIRECTOR OF CENTRAL INTELLIGENCE

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EXECUTIVE SECRETARY, USIB

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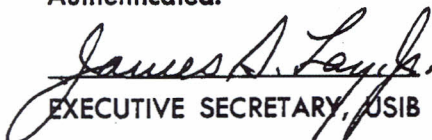
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The following intelligence organizations participated in the preparation of this estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, the NSA, and AEC.

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Mr. William O. Cregar, for Assistant Director, Federal Bureau of Investigation, the subject being outside of his jurisdiction.

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THE UNITED KINGDOM: PROBLEMS AND PROSPECTS

CONCLUSIONS

A. The recent balance of payments crisis has abated; nevertheless, the position of sterling remains vulnerable, and for the next year or two the British government will probably continue restrictive policies which will inhibit economic growth. A substantial improvement in Britain's economic performance would require a major change in public attitude, together with government policies, leading to a shift of resources from consumption to investment and exports. In our view, developments of such magnitude are not likely to occur during the next three or four years. (*Paras. 4-18*)

B. The UK will continue to place highest value on close relations with the US, and will rely basically on the US for its security. It will also try to keep up as far as possible its presence and its influence in the world generally, and not retire into isolation. It will retain its own nuclear force, though it may eventually agree to some arrangement for nuclear sharing with NATO countries. (*Paras. 19-24*)

C. To bring its commitments into line with its economic capabilities, Britain will gradually and selectively reduce its forces and bases abroad and will press for joint security arrangements with its Allies. Aden will be evacuated by 1968. The British will almost certainly not withdraw from Malaysia and Singapore while confrontation with Indonesia remains at high pressure. They will probably remain beyond confrontation—at reduced strength—especially if they can obtain assistance from Australia and New Zealand. However, the British almost certainly will continue to urge the establishment of an alternate base in Australia. (*Paras. 24-28*)

D. There is growing recognition among Britons that the UK should move toward closer cooperation with friendly countries in order to

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maximize its impact on world affairs. London will probably be much readier than before to enter the Common Market if a new opportunity is presented. Such membership would probably improve the prospects for economic growth. (*Paras. 31-34*)

E. Wilson has called for a general election on 31 March. Indications are that his government will be returned to office with an increased majority. If the election should bring a change of government, there would probably not be sharp alterations in major policies. (*Para. 3*)

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DISCUSSION

I. INTRODUCTION

1. Britain is in the throes of trying to work out the role it should and can afford to play on the world stage. Though most of its empire is gone, it still has a wide variety of commitments and obligations, is a leading member of various alliances, and is senior member of the Commonwealth. Much is expected of the UK, but inadequate resources and stubborn economic problems limit its capabilities. Some Britons argue that their country should give up the effort to act as a world power and should try to live as comfortably as possible at home. All the postwar governments have rejected such an approach, though recognizing that the UK must tailor its activities to present circumstances. In this reordering, the British find themselves more and more turning to or accepting joint action with other countries, whether in alliances or other formalized groupings or in informal partnerships, where combined action gives the UK a chance to participate in and influence developments that Britain might once have handled alone.

2. The process of trimming its sails and adjusting to the circumstances of today is rendered more difficult by the general feeling of domestic prosperity. This militates against the political acceptability of Spartan measures at home. Further, many decisions are not for Britain to make alone. Thus, financial difficulties are compounded by the fact that sterling is an international reserve currency for many countries. This enhances Britain's international prestige, but limits its freedom of action, since the confidence of other countries in the pound must be maintained. Again, whatever value the Commonwealth still has for Britain depends on the British going some way in conforming to the desires and interests of the diverse members which now make up that constellation. The resolution of the many problems confronting Britain is a continuing process and will not be accomplished soon. The paragraphs which follow analyze some of the forces at work and the lines which appear to be emerging.

The Political Context

3. The political situation in which the search for a new role and the struggle for economic progress are taking place appears to be delicately poised.¹ The evenly balanced strength of the two major political parties reflects their nearly equal following among the electorate. The vote of the uncommitted center will probably be the determining element in deciding which party is in power for the foreseeable future. This impels each party to court the center at the expense of its extremists. The Wilson government has managed to stay in power with a minuscule majority far longer than most observers had expected.

¹In the 1964 elections, Labor polled less than one percent more than the Conservatives (44.1 to 43.4 percent) and received 317 seats compared to 303 for the Conservatives and 9 for the Liberals. Due to by-elections and other changes, Labor now has a 3 seat majority.

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Wilson has called for a general election on 31 March. Indications are that his government will be returned to office with an increased majority. Should the election bring a change of government, there would probably not be sharp alterations in major policies. Furthermore, external policies are determined, to a large extent, by the realities of the UK's situation and by the British wish to maintain the closest possible relationship with the US.

II. BRITAIN'S ECONOMIC PLIGHT

4. In the postwar years, Britain has had full employment and a rising standard of living. Nevertheless, the British economy has been plagued by a number of persistent problems, principally the poor competitive position of British exports in world trade, and an inability to sustain rapid economic growth at home without creating serious deficits in the balance of payments. These problems have been complicated by sterling's role as a reserve currency, by a heavy outflow of capital, and by Britain's military commitments abroad. Taken all together they have produced effects on the economy which have become increasingly unfavorable with the passage of time.

5. The severe problem of adjustment after World War II contributed heavily to Britain's current economic plight. Britain lost the earnings from the foreign investments it sold during the war its large external debt made sterling more vulnerable to speculative attacks, and Britain's postwar terms of trade deteriorated significantly as compared with the prewar period. The devaluation of the pound in 1949 did not bring the benefits which were expected, because the Korean War, starting in 1950, substantially increased the cost of the goods Britain needed to import and raised British defense expenditures. Furthermore, the British had a largely antiquated and obsolescent industrial plant and a population tired from exceptional effort and privation and impatient to return to normal.

6. A fundamental weakness in the British economy has been the relatively slow rate of growth of British exports, a rate which averaged 3.2 percent in volume during 1955-1964 compared with 9.9 percent in the Common Market countries. Throughout the postwar period Britain has seen its share of world exports steadily decline in all major markets. The most severe losses have been in Commonwealth markets, where tariff preferences for British goods have been reduced.

7. The underlying cause of the weakening competitive position of British exports is the rapid increase in British wages and the lag in growth of labor productivity compared with most of Britain's competitors.² Several factors, rooted in British traditions and habits, are responsible for the lag in productivity. Managers are reluctant to change the organization of production and make the large investments in new technology necessary for increasing productivity. The unions resist changes in work rules. A tight labor market

² See Figure 1 for comparative increases in productivity and wages.

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(together with industry's tendency to hoard labor) and an inadequate expansion of the supply of engineers, technicians, and trained managers have created conditions in which it is difficult for progressive attitudes to develop. Piece-meal improvements have been the rule, particularly in the older industries, and only a few industries, such as chemicals and electronics, have kept pace with the most modern developments abroad.

8. During periods of rapid economic expansion, imports grew much more rapidly than exports with the result that there were large trade deficits.³ These trade deficits, combined with rising military expenditures abroad and a persistent outflow of long-term capital, produced recurrent and growing deficits in the balance of payments.⁴ Three times in the past ten years, in 1955, 1961, and 1964, balance of payments crises—each successive crisis more serious than the one before—forced the government to apply restrictive domestic economic policies. The negative effect of these policies on economic growth was not limited to the periods of balance of payments crisis. There was also a long-lasting effect on the incentive to invest as businessmen, expecting that every boom would be short-lived, became reluctant to undertake large expenditures for plant expansion and modernization.

9. As a consequence of these factors, the rate of growth and allocation of British GNP is quite different from its continental competitors.⁵ A smaller portion of British GNP is allocated to investment and a significantly larger share is devoted to defense. Although social welfare programs are relatively no larger in the UK than in most other European countries, the British allocate a higher share of GNP to personal consumption. While the rate of growth of the British economy in the past decade compares favorably with its earlier experience, it has been much lower than that of its main European competitors.

AVERAGE ANNUAL RATES OF GROWTH, 1955-1964

	GNP IN CONSTANT PRICES	INDUSTRIAL PRODUCTION
United Kingdom	3.2	3.1
United States	3.6	4.4
EEC Countries	5.6	7.0

The Recent Crisis

10. The latest crisis produced the largest payments deficit of the postwar period in 1964 (\$2.1 billion). By the time Wilson took office in October 1964 the balance of payments deficit was producing pressure on sterling, and soon thereafter the spread of speculation threatened a run on Britain's thin reserves. Rejecting devaluation, Wilson tried to restore confidence in sterling by means of a 15 percent surcharge on nonagricultural imports (later reduced to 10 percent at the

³ See Figure 2 for annual rates of change of industrial production, imports, and exports.

⁴ See Figure 3 for trends in the balance of payments.

⁵ See Figure 4 for major uses of GNP.

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insistence of Britain's EFTA partners), a substantial increase in the bank rate, and heavier taxes. Later, exchange controls were tightened to restrict investment in non-sterling areas. Also, since October 1964, Britain has at various times had to borrow heavily abroad. Despite some repayments, Britain now stands with substantial additions to its foreign debts, the main item being a debt of \$2.4 billion to the IMF. Confidence in sterling was not restored until September 1965. Since then, the pound has generally traded above par and Britain's reserves have increased. During 1965, the value of exports rose seven percent while imports increased only one percent, thus reducing the trade deficit by nearly one-half. The overall balance of payments deficit probably was reduced to about the same extent.

Prospects for 1966

11. A further improvement in the British balance of payments is likely in 1966. Nevertheless, achievement of the official British goal of equilibrium in its balance of payments by the end of the year appears unlikely, though possible. Furthermore, the position of sterling remains vulnerable. For example, if escalation of the troubles with Rhodesia were to cut off British imports of Zambian copper or lead to protracted conflict with Rhodesia, the additional burden on the UK balance of payments could be severe. The resulting drain on British reserves could bring about a renewed loss of confidence in sterling.

Longer Term Prospects

12. Although the British government has had to concentrate on immediate balance of payments problems, it recognizes that the crucial long-term problem is to raise the inadequate rate of economic growth. This concern is reflected in the National Plan issued last September by the Labor government, which calls for an increase in the national product of 25 percent between 1964 and 1970, requiring an average of 3.8 percent annually. The Plan outlines a wide variety of measures to achieve this result. Although the British economy probably has the potential for an annual growth rate of around 4 percent, its actual growth is likely to be much slower than this, at least in the next year or two, and it is highly unlikely that the 1970 target will be reached.

13. In the next few years, substantial balance of payments obstacles must be overcome. Britain is scheduled to repay \$2.4 billion of credits from the IMF during 1967-1970, although extensions of time may be granted. Estimates in the Plan based on foreign exchange savings of \$140 to \$280 million in military expenditures abroad, and on a shift from a net outflow to a net inflow of private long-term capital, may be too optimistic. A key element of the Plan is an increase in the annual rate of growth of exports to 5¼ percent (in constant prices) from an average of 3 percent during the past decade.

14. Such an increase clearly assumes a sharp improvement in the international competitiveness of British exports, but prospects for attaining this objective are not bright. Government policies are aimed at stimulating exports directly

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through tax rebates, publicity and export promotion, and indirectly by attacking conservative management, featherbedding, and other causes of low productivity. The Labor government recognizes that these measures are unlikely to do the job by themselves and that an effective limitation of both prices and wages is essential. Although the Trades Union Congress has pledged cooperation, the individual unions have shown little restraint in wage negotiations, and wages have increased much faster than labor productivity. As a result, costs per unit of output have continued to rise more rapidly in Britain than in most other industrial countries. To improve this situation, the government will have to take much stronger measures and obtain much more cooperation from labor and management than it has so far.

15. Devaluation is often viewed as a means of making exports more profitable and of discouraging imports, but the British are unlikely to take such action except as a last resort. The British are deterred by fear of a collapse of confidence which would cause a massive flight of sterling balances into other currencies. Conversion of official sterling balances into long-term UK obligations would remove much of this problem, but probably could only be accomplished as part of a wide reform of the system of international financial reserves. The British are deterred from devaluation also by US opposition, which is based in part on fear of the effects of such action on the dollar. Finally, a devaluation might be partly neutralized by devaluations in other countries, undertaken in reaction to the British move.

16. It is likely, therefore, that, during the next year or two, the British government will continue to cope with the balance of payments problem mainly by restrictive domestic policies. This will, however, limit economic growth. There is a danger that business confidence will be so undermined as to cause a drop in private investment. The need to keep the brakes on public expenditure will probably also curtail some of the ambitious programs to improve housing, education, transportation, health and welfare.

17. A major improvement in Britain's economic performance would require a shift of resources from consumption to investment and exports. Such a shift is highly unlikely to take place until the British people feel enough sense of crisis to allow their government to take necessary but unpopular measures, such as a strict wage policy and a major change in the tax structure. The public does not yet have this sense of crisis and is unlikely to develop it during the next few years. People are more impressed with the steady, if slow, improvement in their living conditions, particularly the increase in durable goods, such as automobiles.

18. The Labor government has shown more appreciation of Britain's economic problems and a greater willingness to do something about them than recent Conservative governments. Further, Labor, with its traditional identification with working class interests, would seem more able to put into effect the unpopular economic measures which are needed. Entry into the Common Market would require painful adjustments, but would help the British economy in the

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long run. It would open new opportunities in Western Europe for British exports. Moreover, greater competition from the Common Market countries would put pressure on Britain to modernize its output and methods and to shift resources from consumption to investment and otherwise increase productivity.

III. NUCLEAR DEFENSE POLICY

19. The British consider that a conventional war in Europe is highly improbable and that the only likely threat to the British Isles is an all-out nuclear war with the Soviet Union. The UK necessarily has to rely on the US nuclear force as its main protection. London will continue to attach the highest importance to close relations with Washington and to military cooperation with the US. Britain agrees with the US that the NATO integrated commands should continue even if the French withdraw from them. Despite the Labor party's pre-electoral position against retaining the UK's nuclear force, it is now most improbable that Britain will abandon it.⁶ The party's leaders have come to see a political value in the British deterrent, argue that it may be useful East of Suez, and feel that it would be imprudent for Britain to abandon it when further nuclear proliferation appears likely.

20. London acknowledges the desire of some non-nuclear members of NATO—mainly West Germany—to have a part in the control of the Alliance's nuclear forces. But Britain does not want to grant the non-nuclear nations more voice than is absolutely necessary. It would prefer to solve the sharing problem on the basis of closer consultation on nuclear planning and strategy. If the West Germans, in particular, will not be satisfied with consultation, and if great Allied pressure is brought to bear, Britain would probably agree eventually to some sort of nuclear sharing arrangement in which the US participated. In such an arrangement, Britain would insist on US and UK vetoes over the use of nuclear weapons.

21. Britain sees nuclear sharing as less important than steps to halt the proliferation of nuclear weapons and will continue its efforts to obtain a non-proliferation agreement with the Soviet Union. While the UK understands that its security is now founded on a "balance of terror," it would prefer to supplement this with a growing detente between East and West. Thus, the British government will continue to explore potential areas of East-West agreement, at the same time attempting to avoid sharp policy clashes with its allies, especially Washington or Bonn. This means that while London will continue to work for an agreement on general and controlled disarmament, it will be wary about promoting proposals for limited disarmament which are seen by Bonn as prejudicing its interests.

⁶ The force now consists of about 180 V-bombers, less than 100 of which are in operational units. In the next few years, the British expect to have four Polaris submarines and some 50 bomber versions of the US F-111.

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IV. FOREIGN COMMITMENTS AND INTERESTS

22. Britain today still has interests and commitments in every continent of the globe.⁷ Britain's withdrawal from its colonies did not absolve it from all obligation to contribute to their defense. In some cases, the remaining obligations are embodied in treaties, in others they are more in the nature of moral obligations. The UK is a member of NATO, CENTO, and SEATO, and has a multitude of treaty obligations including those to Malaysia, Singapore, Cyprus, Libya, Malta, and a number of small states on the Arabian peninsula.

23. These obligations, and the deployment of British forces to uphold them, have come under close scrutiny in the UK in the recent review of defense policy which is also a review of foreign policy. There is a widespread feeling that the UK is trying to do too much. Nevertheless the "Little England" view has few supporters among leading elements of the country and practically none in the government. Various considerations dispose British leaders to the view that the UK must maintain widespread foreign commitments and interests. Outstanding among them is the desire to have Britain play an important and influential world role. Britain also knows that it must uphold most of its commitments if it is to retain its intimate links with the US, as it wishes to do. Some of Britain's overseas obligations relate to commitments undertaken for reasons which have lost their importance, such as commitments in scattered islands in the Pacific and Caribbean. But Britain sees no way in which it can terminate them. Another reason for a British overseas military presence is the belief of some that the UK must protect certain important investments and its access on favorable terms to certain resources, particularly Persian Gulf oil.

24. While Britain is generally ready to maintain its overseas commitments, it feels strongly that it has been carrying more than its share of the Free World's defense load. Its military expenditures have been considerably larger than those of France or West Germany. Of total British military costs—about \$6 billion in 1965—28 percent went for overseas operations. Moreover in 1964, when the British balance-of-payments deficit was \$2.1 billion, the net foreign exchange expenditures for military purposes were \$730 million.

25. As stated in the recent Defense White Paper, the UK will reduce its foreign military effort over the next few years. The British government has set as a target for its 1970 defense budget the expenditure level of \$5.6 billion, in terms of 1964 prices. This is in contrast to projected spending of \$6.72 billion by 1970 under the previous government's defense program. To keep within his target Wilson has had to adopt economies in the military establishment, drop certain weapons programs, and plan for force reductions and cut-backs in overseas installations. This course coincides with the assessment of the British that, for political reasons as well, they will have to make changes in their defense posture; in their view the rising nationalism of underdeveloped countries makes it unlikely that Britain can long maintain bases on their territory.

⁷ See Figures 5 and 6 and map.

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26. A major area of British responsibility is East of Suez, including the lands around the Indian Ocean from East Africa and Arabia to Malaysia and Australia. Here the major British bases are at Aden and Singapore. Aden is slated for independence in 1968, and Britain has just announced that it intends to evacuate its base at that time, although it will make a small increase in its forces in the Persian Gulf. To cut expenditures, the British would like to be able to withdraw from Malaysia and Singapore. Almost certainly they will not do so while confrontation with Indonesia remains at high pressure, but they will be prone to seize on any relaxation of confrontation to reduce British forces, including the Singapore garrison. Britain probably will remain at reduced strength in Malaysia and Singapore even after the confrontation subsides, especially if Australia and New Zealand are willing to help. However, the British almost certainly will continue to urge the establishment of an alternate base in Australia, on the argument that eventually political conditions in Singapore will probably force them out of the base.

27. To prepare for the longer term, Britain has proposed development of UK-US-Australia-New Zealand defense arrangements based on Australia and supported by facilities on Indian Ocean islands. Britain already has an air staging base on Gan in the Maldives, as Australia has in the Cocos Islands. The UK has also discussed joint US-UK facilities on Aldabra in the Seychelles and Diego Garcia in the Chagos Archipelago.⁸ It has already detached them from the administration of the Seychelles and Mauritius and has designated them the British Indian Ocean Territory. As a group, these islands could be developed to support carrier task forces, submarines, and aircraft. While the British will continue to discuss and plan for alternatives for Singapore and Aden, actual development of alternate bases will depend on the extent to which others, particularly the US, agree to bear the expense.

28. London probably will not substantially reduce the British Army of the Rhine (BAOR) for the next few years, although it does not consider that a conventional force of this size (about 54,000) in Europe is militarily necessary. However, Britain recognizes the political value of the Army's presence on the Continent and of the Western European Union (WEU) treaty, under which it is committed to keep troops in Germany. It will probably continue to use the BAOR as a strategic reserve, trying to get this practice formally approved by NATO. It will also put pressure on Bonn for greater assistance in meeting the foreign exchange costs (\$238 million a year) of the Rhine Army. In keeping with a military emphasis on the European NATO area and East of Suez, Britain will cut or withdraw its forces in the Mediterranean, Africa, and the Western Hemisphere.

29. The British government has supported the US position on Vietnam and will probably continue to do so. There is some opposition within the Labor party to the US policy, but the public, by and large, does not show much concern in this matter. The government's support of the US is not likely to create

⁸ See map attached.

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serious political problems unless the Vietnam war becomes a much greater threat to world peace than it now is. Wilson has made several attempts to mediate and will probably continue to seek a basis for negotiations.

30. The Rhodesian situation illustrates Britain's responsibility for the satisfactory evolution of its colonies. In opposing the Rhodesian unilateral declaration of independence, London has acted in part from a belief that its political credit with the underdeveloped countries would be seriously prejudiced and the Commonwealth might break up if Britain did not take steps to prevent the establishment of a country in which four million blacks were ruled by some 200,000 whites. Wilson will almost certainly carry on his campaign to return Rhodesia to constitutionality and to assure progress toward majority rule. If economic sanctions are not soon effective, Britain will have to give further consideration to the use of military force. An attempt to resort to force would pose very difficult problems of manpower, logistics, and the diversion of resources from other priority needs. On the other hand, failure of Wilson's policy and the persistence of the Smith regime in Rhodesia would seriously affect the British position in the underdeveloped world.

V. ECONOMIC AND POLITICAL ASSOCIATION WITH OTHER STATES

31. Since the end of World War II, many British leaders have come increasingly to realize that the achieving of Britain's economic, military, and political objectives requires it to act much more in concert with other countries than has been traditional. It has also been apparent to them that the kind of permanent cooperation necessary for joint programs and policies can involve the development of economic, military, and eventually, political institutions. The British will act with caution in committing themselves to formal arrangements, and will make every effort to proceed in a way acceptable to the US, so as not to prejudice the close relationship with the US, which is the keystone of British foreign policy.

32. The Commonwealth has had psychological value in cushioning the loss of Empire, but it is not the answer to Britain's needs for association with a broader power base. Britain values the Commonwealth as a source of prestige and a system of contacts and consultation which is often useful. But the diversity of races, cultures, and political alignments represented in the Commonwealth has killed hopes that it could be developed into a significant political instrumentality. British trade with the other Commonwealth members, moreover, is of declining importance.

33. Many British see in Western Europe, and especially the Common Market, the most promising field for joint programs and institutions. Britain appreciates that the EEC is developing economic power rivaling that of the US and is aware that closer political relations may some day follow. Given the inability of the American connection and of the Commonwealth to resolve Britain's long-term problems, many in the UK now see that the country will fail to realize its full potential if it does not develop closer ties with Europe than EFTA, NATO, and

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the OECD now provide. If the UK entered the EEC, it would hope to contribute to building a new center of power, but would want to keep this center in alliance with the US, as well as to maintain its own special relationship with Washington. Economically, EEC membership would enlarge the markets for British exports and provide a powerful stimulus to the economic reform needed in the UK.

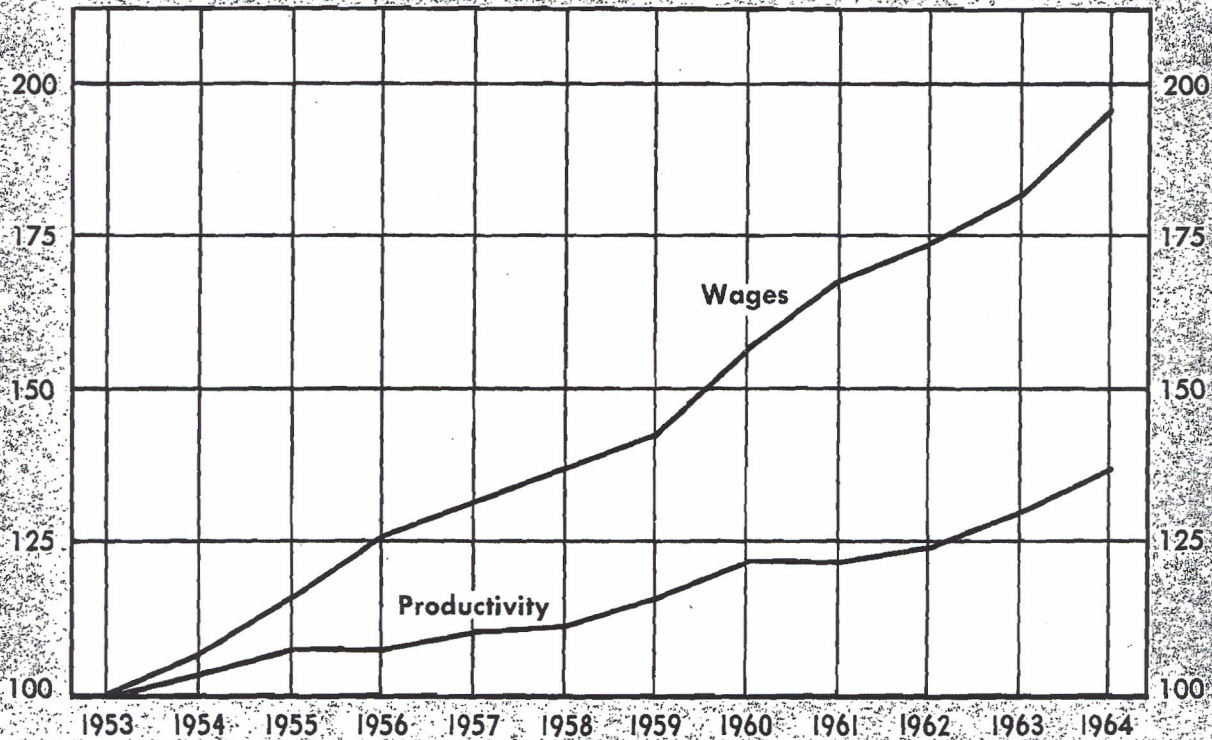
34. Sentiment favorable to Common Market membership seems likely to grow in the UK. The Conservative party is a vigorous champion of this policy, while many in the Labor party, whose majority was cool to the EEC before it came to power, are rethinking their position and talking in more positive terms. Nevertheless, the ultimate position of the Labor party on this matter seems peculiarly a personal one for Wilson as long as he is Prime Minister, and his policy will probably be to move slowly and to launch a new initiative only after it has become clear that all six member states of the EEC are resolved to admit the UK on reasonable terms. The key will be de Gaulle's attitude, which will in turn depend on such factors as the state of French-German and French-US relations. In any event, we believe that when the next opportunity for accession arises, it will find the UK much readier than before to enter the Common Market.

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Figure 1

UNITED KINGDOM
Indexes of Productivity and Wages in Manufacturing
1953-64

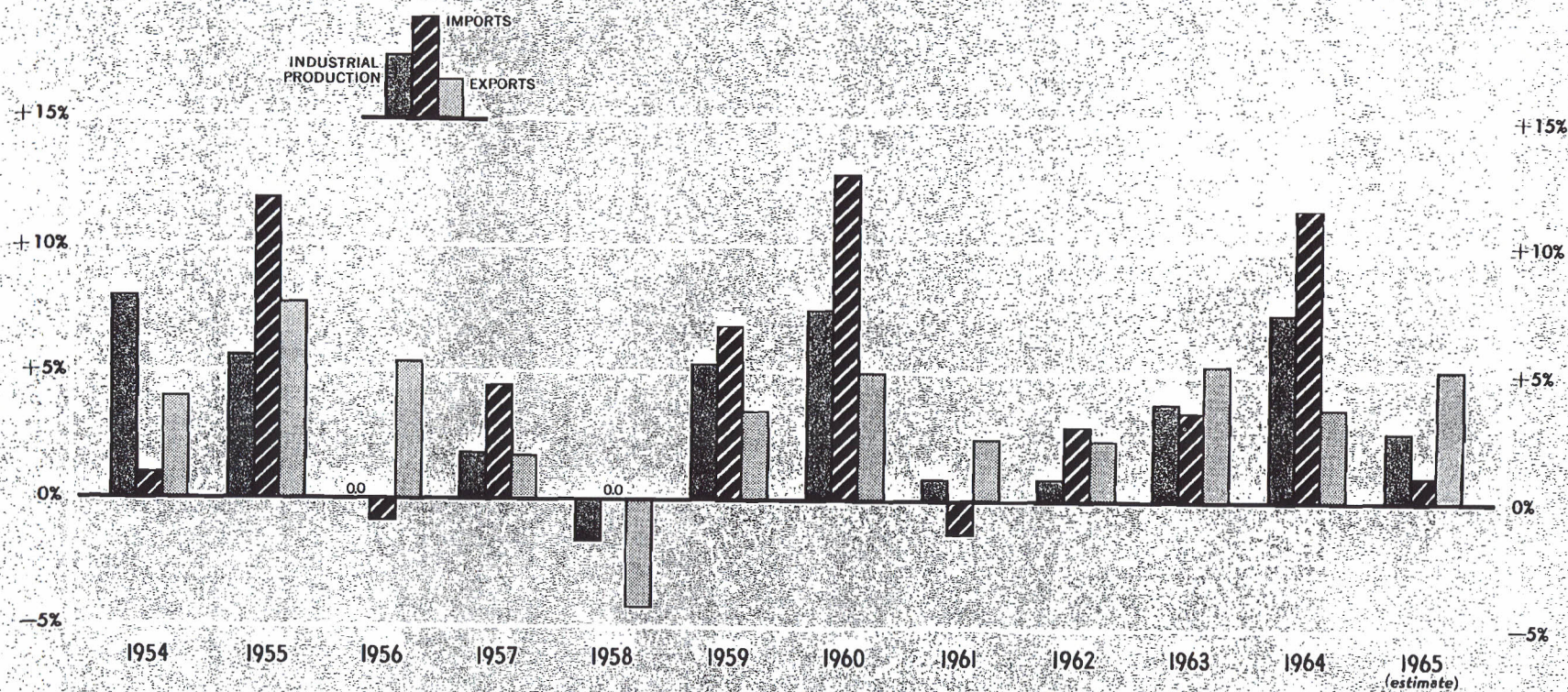
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Figure 2

UNITED KINGDOM
Annual Change in Industrial Production, Imports, and Exports
Volume Indexes 1954-65

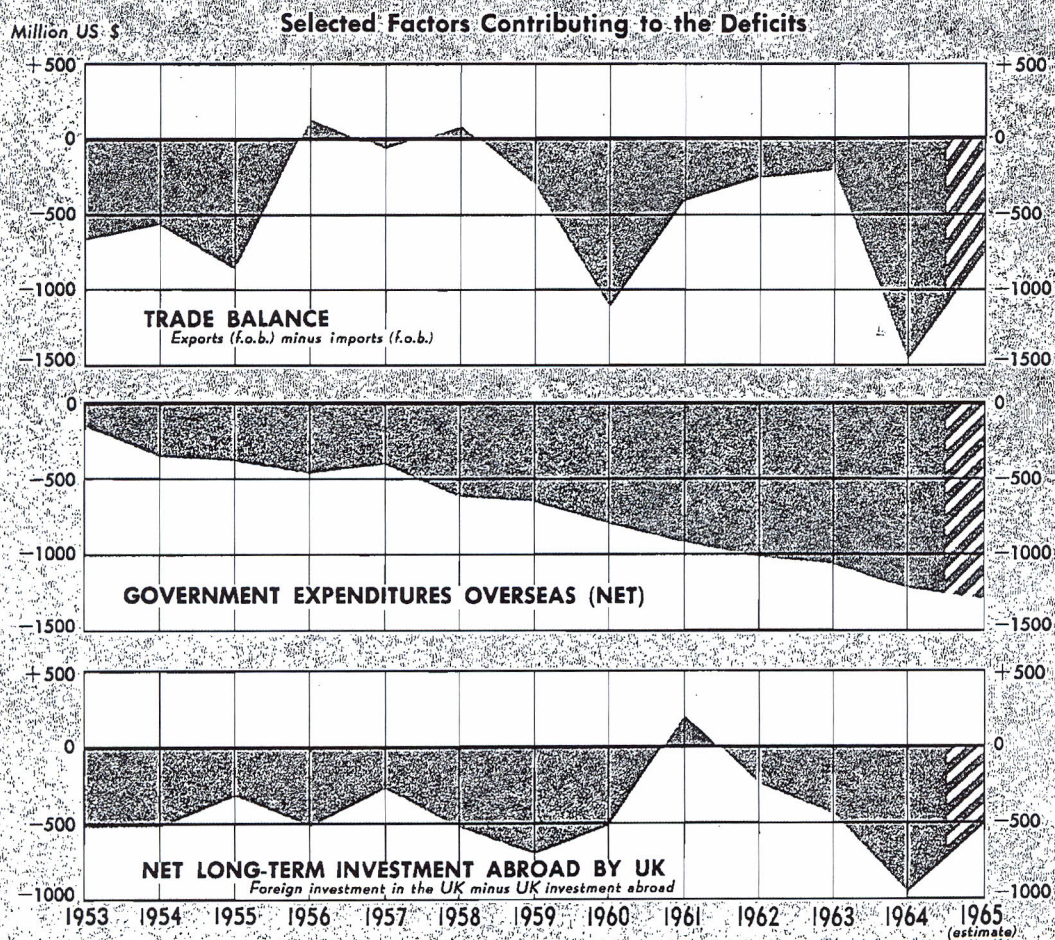
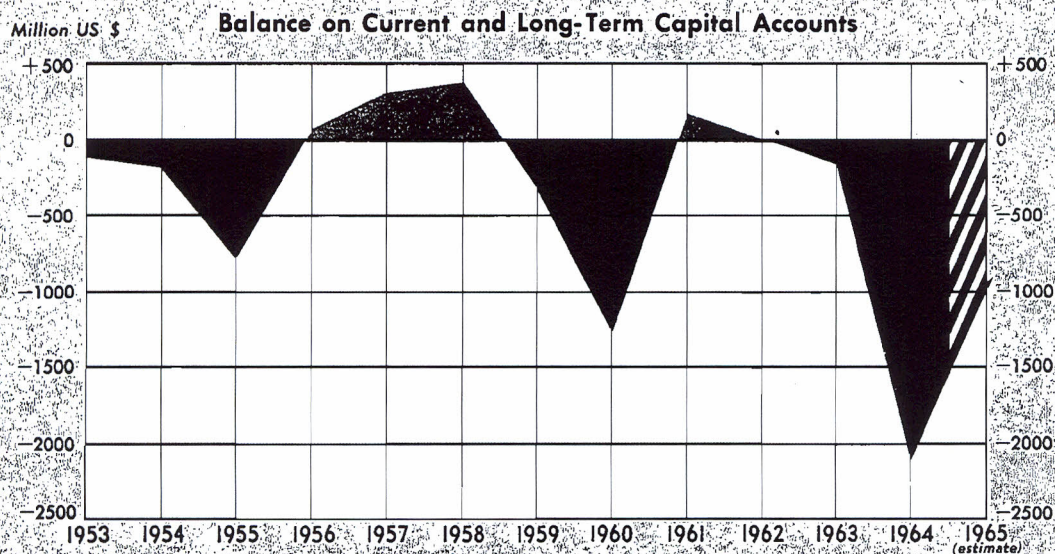


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*Excluding construction.

UNITED KINGDOM Balance of Payments 1953-65

Figure 3



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Figure 4

DISTRIBUTION OF GNP IN THE UNITED KINGDOM AND SELECTED OECD COUNTRIES BY MAJOR END USE, 1964

(Percent of GNP at Current Market Prices)

COUNTRY	GROSS FIXED INVESTMENT	PERSONAL CONSUMP- TION	DEFENSE EXPENDI- TURES *	OTHER GOVERN- MENTAL EXPENDI- TURES
United Kingdom.....	17.6	64.7	6.1 ^b	10.5
France.....	20.9	64.1	5.6	7.7
Italy.....	21.1	61.1	3.6	12.9
Netherlands.....	25.1	57.6	4.4	10.8
Sweden.....	23.4	57.1	4.4	14.0
United States.....	16.8	62.7	8.0	10.5
West Germany.....	26.4	56.2	4.7	10.2

* Based on NATO definition, except in the case of Sweden.

^b In the UK, national accounts comparisons are generally made with Gross Domestic Product (GDP) at Factor Cost, rather than with Gross National Product (GNP) at Market Prices (the basis for comparison commonly used in the US). When expressed as a percentage of GDP at Factor Cost, UK defense expenditures in 1964 were 7.0 percent using NATO definition, or 6.8 percent using UK national accounts definition.

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Figure 5

UK FORCES WORLD-WIDE
(1 January 1966)

LOCATION	ARMY	NAVY	AIR FORCE (by Squadron)
1. UK—Base.....	37 Battalions (21 infantry, 6 armored, 10 artillery)—94,200 men.	2 CL, 1 DLG, 25 DD/DDR/DE/DER, 20 SS, 47 other. In overhaul and reserve: (3 CVA/CVS, 2 CL, 2 DLG, 30 DD/DDR/DE/DER, 1 SSN, 12 SS, 36 other). Auxiliaries and service craft not included.	12 Bomber, ^b 2 reconnaissance, 6 fighter, 12 transport, 7 maritime, 1 tanker, 1 special duties.
2. Halifax.....		2 SS (on loan to Canada).....	
3. Malta.....	2 Battalions including 1 colonial—2,160 men.	2 DD/DE, 5 other. In overhaul and reserve: 2 DD/DE, 10 other.	1 Reconnaissance, 1 maritime.
4. Cyprus.....	4 Battalions; plus 1 armored reconnaissance squadron—5,080 men.		4 Bomber, ^b 1 fighter, 1 transport, 2 flights, Sea-Air rescue.
5. Singapore/Malaya/N. Borneo; Singapore and Malaya Base.	8 Battalions (4 infantry including 2 colonial, 1 armored, 3 artillery)—23,080 men.	1 CVA, ^b 1 LPH, 6 DDR/DE/DER, 1 DLG, 4 SS, 16 other. In overhaul and reserve: 2 DE/DER, 1 SS, 5 other.	1 Bomber, ^b 2 fighter, 1 reconnaissance, 1 attack, 8 transport, 1 maritime.
N. Borneo.....	10 Infantry battalions including 5 colonial—11,320 men.		1 Transport.
6. Sydney.....		3 SS (on loan to Australia).....	
7. Bermuda.....		1 DD, 3 DE.....	
8. British Honduras.....	1 Company—210 men.....		
9. British Guiana.....	2 Battalions—1,250 men.....		
10. Gibraltar.....	1 Battalion (less 1 infantry company)—690 men.		1 Maritime.
11. Swaziland.....	1 Infantry battalion (less 1 company in Bechuanaland and 1 company in Mauritius)—500 men.		

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Figure 5 (Continued)

LOCATION	ARMY	NAVY	AIR FORCE (by Squadron)
12. Aden.....	11 Battalions (8 infantry, including 4 colonial, 2 armored, 2 artillery)—14,000 men.	1 CVA, ^b 5 DE/DER, 2 other....	2 Fighter, 4 transport, 1 maritime.
13. Hong Kong.....	5 Battalions (4 infantry, including 2 colonial, 1 artillery)—8,750 men.	3 MSC.....	1 Fighter.
14. Federal Republic of Germany and Berlin.	49 Battalions (19 infantry, 13 armored, 17 artillery, including 1 colonial)—56,700 men.	4 Bomber, ^b 3 reconnaissance, 4 fighter, 1 transport.
15. Libya.....	2 Battalions; less 1 armored reconnaissance squadron; plus 1 infantry company—2,260 men.
16. Wynberg (South Atlantic and South America Station).	1 DE.....
17. Bahrain.....	2 Battalions—3,120 men.....	2 DE, 7 other.....	1 Fighter, 2 transport.

^a Numbers correspond to those on map.

^b Nuclear delivery capability.

^c Does not include a detachment of 4 bombers with a nuclear capability from the UK.

KEY TO NAVY ABBREVIATIONS ON FIGURE 5

CVA..... Attack Aircraft Carrier

CVS..... ASW (Antisubmarine Warfare) Support Aircraft Carrier

CL..... Light Cruiser

DD..... Destroyer

DDR..... Radar Picket Destroyer

DLG..... Guided Missile Frigate

LPH..... Amphibious Assault Ship

MSC..... Minesweeper, Coastal (Nonmagnetic)

DE..... Destroyer Escort

DER..... Radar Picket Destroyer Escort

SS..... Submarine

SSN..... Nuclear Power Attack Submarine

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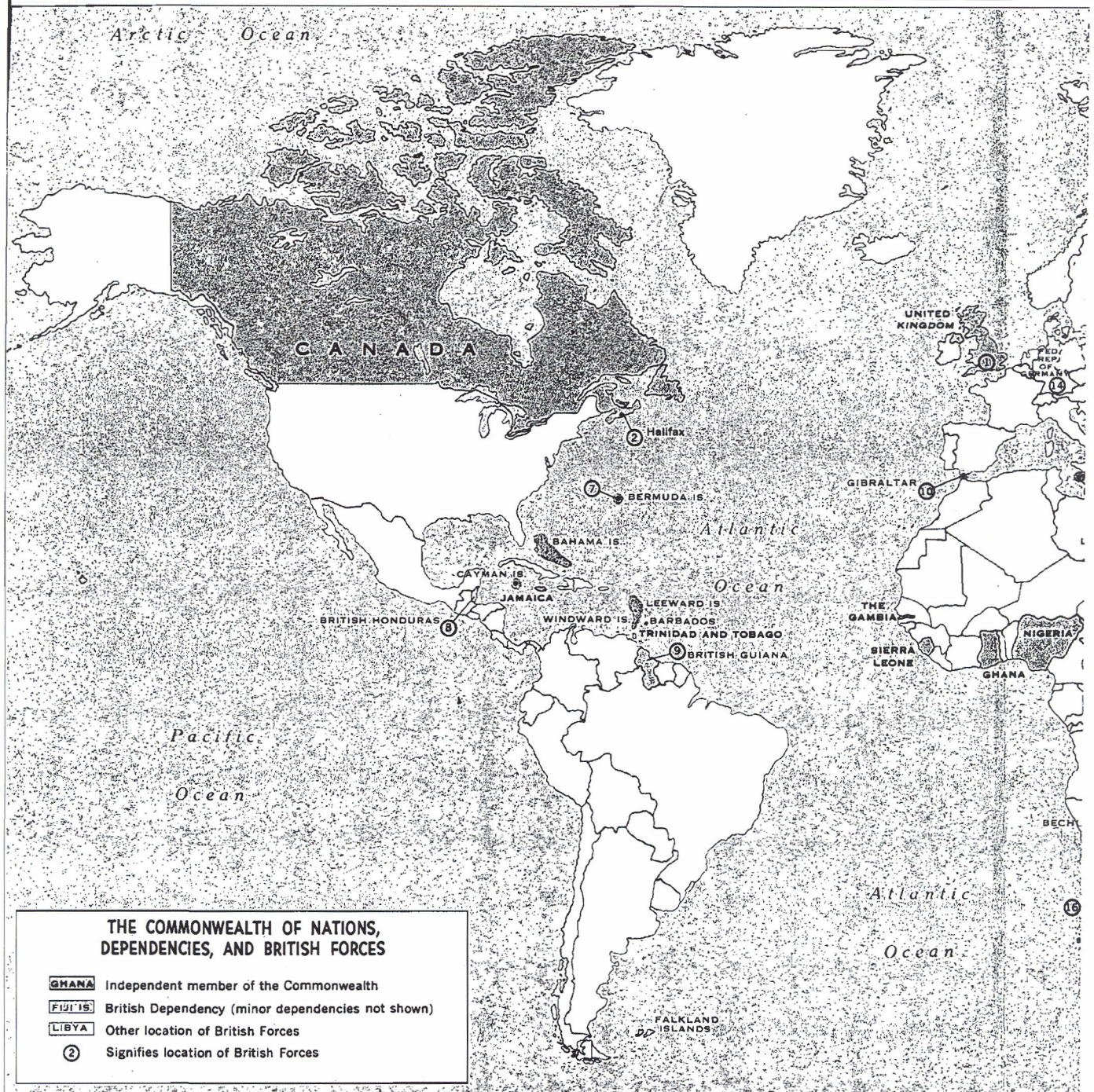
Figure 6

The Commonwealth of Nations

Independent Members of the Commonwealth (numbers correspond with locations of British forces in Figure 5 and on map)	British Dependencies (with dates of coming independence, where known)
1-UK	7-Bermuda
2-Canada	Bahama Islands
Jamaica	Some islands in the Leeward and Windward groups
Trinidad and Tobago	Barbados (possibly 1966)
3-Malta	Cayman Islands
4-Cyprus	8-British Honduras (possibly 1967/1968)
The Gambia	9-British Guiana (1966)
Sierra Leone	Falkland Islands
Ghana	Antarctic Territory
Nigeria	10-Gibraltar
Kenya	Basutoland (1966)
Uganda	11-Swaziland (1967/1968)
Tanzania	Bechuanaland (1966)
Zambia	Southern Rhodesia
Malawi	12-Aden (by 1968)
Pakistan	Protectorate of South Arabia (by 1968)
India	Seychelles
Ceylon	Mauritius (1966)
5-Malaysia	British Indian Ocean Territory
Singapore	Brunei
6-Australia	13-Hong Kong
New Zealand	British Solomon Islands
	New Hebrides (condominium with France)
	Fiji Islands
	Tonga Islands
	Gilbert and Ellice Islands
	Various smaller islands

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